



Mamusa Local Municipality
Annual Financial Statements
for the year ended 30 June 2017

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Nature of business and principal activities

Provision of municipal services to communities within Schweizer - Reneke, Amalia, Glaudinah and surrounding areas.

Mayoral committee

Mayor

A Motswana

Councillors

TM Digopo

CP Herbst

JZ Jengeca

NA Keohitlhetse

DP Khuduga

NM Killian

MV Lee

MJ Lucas

EK Maine

L Moseki

E Chubisi

MY Moyake

PF Mpitsang

MJ Rapudi

KS Sediti

TM Sepato

LR Silane

Grading of local authority

3

Accounting Officer

KI Makaota

Chief Finance Officer (CFO)

KJ Moiloa

Registered office

28 Schweizer Street
Schweizer-Reneke
2780

Postal address

P O Box 05
Schweizer-Reneke
2780

Bankers

First National Bank

Auditors

Auditor General of South Africa

Telephone

053 963 1331

Fax

053 963 2474

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	5
Audit Committee Report	6
Report of the Auditor General	7 - 6
Accounting Officer's Report	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Statement of Comparison of Budget and Actual Amounts	12 - 16
Accounting Policies	17 - 30
Notes to the Annual Financial Statements	31 - 59

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on pages 7 to 59, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:



Accounting Officer

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	7	52 932 125	50 781 983
Receivables from exchange transactions	8&11	40 878 661	20 320 455
Receivables from non-exchange transactions	9&11	15 580 788	13 223 636
VAT receivable	10	9 669 051	39 451 418
Cash and cash equivalents	12	560 475	1 118 736
		119 621 100	124 896 228
Non-Current Assets			
Investment property	3	26 537 000	24 270 000
Property, plant and equipment	4	359 665 095	369 702 896
Intangible assets	5	1 229 358	1 422 342
		387 431 453	395 395 238
		387 431 453	395 395 238
		119 621 100	124 896 228
Total Assets		507 052 553	520 291 466
Liabilities			
Current Liabilities			
Finance lease obligation	13	123 112	128 825
Payables from exchange transactions	17	84 231 430	72 935 024
Income received in advance	18	-	869 667
VAT payable	19	9 716 825	22 949 711
Consumer deposits	20	584 333	556 803
Employee benefit obligation	6&15	15 468 001	795 000
Unspent conditional grants and receipts	14	3 325 173	711 303
Provisions	15	4 002 005	5 554 597
Other liability 1	16	15 580 349	15 580 349
		133 031 228	120 081 279
Non-Current Liabilities			
Finance lease obligation	13	5 710	208 506
Operating lease liability		5 265	-
Employee benefit obligation	6&15	1 895 000	16 568 001
Unspent conditional grants and receipts	14	1 438 925	-
Provisions	15	3 069 819	4 753 496
		6 414 719	21 530 003
		6 414 719	21 530 003
Total Liabilities		139 445 947	141 611 282
Assets		507 052 553	520 291 466
Liabilities		(139 445 947)	(141 611 282)
Net Assets		367 606 606	378 680 184
Accumulated surplus		367 606 606	378 680 184

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	24	52 697 879	53 801 209
Rental of facilities and equipment	37	659 862	208 628
Licences and permits		1 499 490	3 396 384
Other income	27	9 944 473	1 539 311
Interest earned	32	9 577 300	15 621 283
Total revenue from exchange transactions		74 379 004	74 566 815
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	12 053 788	11 304 042
Transfer revenue			
Government grants & subsidies	25	65 050 749	87 121 358
Fines		360 700	672 146
Total revenue from non-exchange transactions		77 465 237	99 097 546
		74 379 004	74 566 815
		77 465 237	99 097 546
Total revenue	22	151 844 241	173 664 361
Expenditure			
Employee related costs	29	(49 549 526)	(52 330 714)
Remuneration of councillors	30	(6 685 198)	(4 739 182)
Depreciation and amortization	34	(20 846 275)	(23 941 533)
Indigent subsidy		(2 487 269)	25 537
Finance costs	35	(8 748 974)	(3 468 680)
Rental equipment		(1 933 685)	(547 791)
Bad debts written off	31	(3 185 027)	(20 264 321)
Indigent subsidy		(2 760 565)	(7 544 872)
Repairs and maintenance		(4 222 422)	(5 535 813)
Bulk purchases	39	(23 875 203)	(25 203 651)
Contracted services	38	(3 165 909)	(2 756 015)
General Expenses	28	(31 747 097)	(53 297 100)
Total expenditure		(159 207 150)	(199 604 135)
		-	-
Total revenue		151 844 241	173 664 361
Total expenditure		(159 207 150)	(199 604 135)
Operating deficit		(7 362 909)	(25 939 774)
Gain on disposal of assets and liabilities		2 059 686	-
Fair value adjustments	33	2 267 000	(1 287 702)
		4 326 686	(1 287 702)
Operating surplus/deficit		4 326 686	(1 287 702)
Deficit before taxation		(3 036 223)	(27 227 476)
Taxation		-	-
Deficit for the year		(3 036 223)	(27 227 476)

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015	405 907 660	405 907 660
Changes in net assets		
Deficit for the year	(27 227 476)	(27 227 476)
Total changes	(27 227 476)	(27 227 476)
Balance at 01 July 2016	358 932 415	358 932 415
Changes in net assets		
Surplus for the year	(3 036 223)	(3 036 223)
Prior Year adjustment	11 710 414	11 710 414
Total changes	8 674 191	8 674 191
Balance at 30 June 2017	367 606 606	367 606 606
Note(s)		

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Property rates		9 358 377	7 761 441
Services charges		31 396 054	31 396 054
Other receipts		11 822 777	23 891 525
Interest income		9 577 300	848 756
Grants - Operational		56 136 400	54 474 618
Grants - Capital	25	11 541 171	19 736 000
		<u>129 832 079</u>	<u>138 108 394</u>
Payments			
Employee costs		(56 234 725)	(57 069 891)
Suppliers		(52 386 288)	(36 008 404)
Finance costs		(8 748 974)	(3 436 969)
Other cash item		-	(5 004 630)
		<u>(117 369 987)</u>	<u>(101 519 894)</u>
Total receipts		129 832 079	138 108 394
Total payments		(117 369 987)	(101 519 894)
Net cash flows from operating activities	40	<u>12 462 092</u>	<u>36 588 500</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(16 931 177)	(34 728 341)
Proceeds from sale of property, plant and equipment	4	4 119 334	-
Purchase of other intangible assets	5	-	(660 100)
Net cash flows from investing activities		<u>(12 811 843)</u>	<u>(35 388 441)</u>
Cash flows from financing activities			
Finance lease payments		(208 509)	(464 834)
Net increase/(decrease) in cash and cash equivalents		<u>(558 260)</u>	<u>735 225</u>
Cash and cash equivalents at the beginning of the year		1 118 736	383 511
Cash and cash equivalents at the end of the year	12	<u>560 476</u>	<u>1 118 736</u>

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	51 456 000	(1 700 000)	49 756 000	52 697 879	2 941 879	The municipality underbudgeted due to no forecasting the amount of rain increasing in the billing as a result of rain that allowed the municipality to provide, water and sewage services to the residents of Ipelegeng township.
Rental of facilities and equipment	665 977	(300 000)	365 977	659 862	293 885	There overbudgeting of rental equipment and facilities is due to the mangement decision to implement market related rental for municipal houses which was not implemented due to constant change in management.
Licences and permits	2 498 085	(200 000)	2 298 085	1 499 490	(798 595)	The overbudgeting is due to anticipating an increase in the licensing of vehicles.
Other income - (rollup)	4 294 972	(3 050 000)	1 244 972	9 944 473	8 699 501	The variance of 3% is considered reasonable

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Interest received	16 464 494	(4 000 000)	12 464 494	9 577 300	(2 887 194)	The overbudgeting due to the month to month increases in the billing due to the rains allowing additional billing
Total revenue from exchange transactions	75 379 528	(9 250 000)	66 129 528	74 379 004	8 249 476	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12 386 000	-	12 386 000	12 053 788	(332 212)	The variance of 3% is considered reasonable
Transfer revenue						
Government grants & subsidies	61 800 000	(6 000 000)	55 800 000	65 050 749	9 250 749	The underbudgeting is due to the anticipation of the Municipal Infrastructure Grant being reduced to by R4 million and the grant from the Dr. Ruth Segomotsi Mompati District Municipality being reduced by R6 million.
Fines	-	-	-	360 700	360 700	
Total revenue from non-exchange transactions	74 186 000	(6 000 000)	68 186 000	77 465 237	9 279 237	
'Total revenue from exchange transactions'	75 379 528	(9 250 000)	66 129 528	74 379 004	8 249 476	
'Total revenue from non-exchange transactions'	74 186 000	(6 000 000)	68 186 000	77 465 237	9 279 237	
Total revenue	149 565 528	(15 250 000)	134 315 528	151 844 241	17 528 713	

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Expenditure						
Personnel	(48 188 000)	(2 500 000)	(50 688 000)	(49 549 526)	1 138 474	The overbudgeting of the employee costs is due to the anticipation of filling the vacant positions as approved in the organisation structure.
Remuneration of councillors	(5 119 126)	(1 500 000)	(6 619 126)	(6 685 198)	(66 072)	The overbudgeting was in anticipation of the councilors total remuneration being increased by the travel ad subsistence as the travel and subsistence was treated as an advance to the salaries of councilors as no support documentation of expenses was provided on return from the authorised trip.
Depreciation and amortisation	(27 042 000)	-	(27 042 000)	(20 846 275)	6 195 725	
Impairment	-	-	-	(2 487 269)	(2 487 269)	

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Finance costs	(820 556)	(2 800 000)	(3 620 556)	(8 748 974)	(5 128 418)	The underbudgeting of finance costs due to a payment agreement entered into with Eskom stating that interest in arrears will foregone on condition that the current account and payment arrangement is adhered to.
Debt Impairment	(40 495 616)	-	(40 495 616)	(3 185 027)	37 310 589	The arrangement was not adhered to by the municipality and the interest and was restored.s
Indigent subsidy	-	-	-	(2 760 565)	(2 760 565)	
Repairs and maintenance	-	-	-	(4 222 422)	(4 222 422)	Old infrastructure being repaired
Bulk purchases	(28 462 000)	4 845 531	(23 616 469)	(23 875 203)	(258 734)	
Contracted services	(8 366 311)	-	(8 366 311)	(3 165 909)	5 200 402	The was over expenditure of the contracted services due the increased security services as a result of continued community services protests. There was also increased spend on the chemicals due to unforeseen rain result in water reticulation to the township being restored.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(21 206 548)	9 817 000	(11 389 548)	(31 747 097)	(20 357 549)	General expenses overspending is largely due to replacing items, that were destroyed during the arson incident that took place in June. Adding to that there is an additional inflationary increase in prices for general expenses.
Total expenditure	(179 700 157)	7 862 531	(171 837 626)	(159 207 150)	12 630 476	
	149 565 528	(15 250 000)	134 315 528	151 844 241	17 528 713	
	(179 700 157)	7 862 531	(171 837 626)	(159 207 150)	12 630 476	
Operating deficit	(30 134 629)	(7 387 469)	(37 522 098)	(7 362 909)	30 159 189	
Gain on disposal of assets and liabilities	-	-	-	2 059 686	2 059 686	
Fair value adjustments	-	-	-	2 267 000	2 267 000	
	-	-	-	4 326 686	4 326 686	
	(30 134 629)	(7 387 469)	(37 522 098)	(7 362 909)	30 159 189	
	-	-	-	4 326 686	4 326 686	
Deficit before taxation	(30 134 629)	(7 387 469)	(37 522 098)	(3 036 223)	34 485 875	
Surplus before taxation	(30 134 629)	(7 387 469)	(37 522 098)	(3 036 223)	34 485 875	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(30 134 629)	(7 387 469)	(37 522 098)	(3 036 223)	34 485 875	
Reconciliation						

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The cost of post - employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future medical fund contributions increases and mortality rates. Due to the long - term nature of these plans, such estimates are subject to significant uncertainty.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Investment property which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	5 - 100 years
Plant and equipment	Straight line	5 - 20 years
Infrastructure electricity	Straight line	10 - 50 years
Infrastructure roads	Straight line	5 - 100 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years
Website	3 years

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.8 Financial instruments

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.19 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. The comparable information includes the following: the approved and final budget amounts, actual amounts and final budget amounts. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements

Events after reporting date are classified as non-adjusting events have been disclosed for in the notes to the financial statements.

1.26 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus reserve in the statement of changes in net assets.

1.27 Value-Added Tax

The municipality applies the payment basis for VAT purpose as per Value-Added Tax Act. Output tax is payable as and when the purchase consideration are received and input will be claimed as and when payment is made.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	26 537 000	-	26 537 000	24 270 000	-	24 270 000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	24 270 000	2 267 000	26 537 000

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	25 557 702	(1 287 702)	24 270 000

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and building	249 331 270	(113 897 745)	135 433 525	240 518 599	(104 582 764)	135 935 835
Other assets	17 768 155	(14 406 803)	3 361 352	16 649 106	(12 831 360)	3 817 746
Infrastructure	382 282 007	(172 482 471)	209 799 536	367 906 149	(162 303 014)	205 603 135
Work in process	11 070 682	-	11 070 682	24 346 180	-	24 346 180
Total	660 452 114	(300 787 019)	359 665 095	649 420 034	(279 717 138)	369 702 896

Mamusa Local Municipality
Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	135 935 835	-	-	8 813 367	-	(6 802 908)	(2 512 769)	135 433 525
Other assets	3 817 746	1 119 050	-	-	-	(1 575 444)	-	3 361 352
Infrastructure	205 603 135	528 717	(2 059 648)	18 002 273	-	(12 274 941)	-	209 799 536
Work in process	24 346 180	15 283 410	-	(26 815 640)	(1 743 268)	-	-	11 070 682
	369 702 896	16 931 177	(2 059 648)	-	(1 743 268)	(20 653 293)	(2 512 769)	359 665 095

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land and building	133 342 758	-	11 515 225	(352 225)	(7 289 802)	(1 280 121)	135 935 835
Other assets	5 265 843	828 729	-	(53 753)	(2 223 073)	-	3 817 746
Infrastructure	201 363 534	848 502	14 024 859	1 905 684	(12 539 444)	-	205 603 135
Work in progress	16 835 154	33 051 110	(25 540 084)	-	-	-	24 346 180
	356 807 289	34 728 341	-	1 499 706	(22 052 319)	(1 280 121)	369 702 896

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2017		2016	
	Cost / Valuation	Accumulated amortisation and impairment	Cost / Valuation	Accumulated amortisation and impairment
Computer software	1 929 838	(700 480)	1 229 358	(507 496)
			1 929 838	1 422 342

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	1 422 342	(192 984)	1 229 358

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

5. Intangible assets (continued)

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	919 809	660 100	(157 567)	1 422 342

6. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr Neil Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service members (Employees)	-	150
Continuation members (Retirees, widowers and orphans)	-	16
	-	166

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	15 322 000	12 602 000
Benefits paid	-	(501 000)
Net expense recognised in the statement of financial position	-	3 221 000
	15 322 000	15 322 000

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	- %	9,83 %
Expected rate of return on assets	- %	7,96 %
Expected rate of return on reimbursement rights	- %	8,96 %
Actual return on reimbursement rights	- %	0,80 %

Retirement Age

Average Retirement Age	63	60
Normal Retirement Age	65	63
	128	123

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
7. Inventories		
Raw materials, components	1 020 358	1 179 233
Unsold property held for resale	49 370 937	49 370 937
Prepaid electricity	2 373 188	64 171
Water	167 642	167 642
	52 932 125	50 781 983

No Inventory was pledged as security for liabilities.

8. Receivables from exchange transactions

Sundry debtors	318 545	44 703
Other debtors	22 282	22 697
Salary deduction control	7 424 449	-
Consumer debtors - Electricity	11 249 196	9 785 443
Consumer debtors - Water	25 842 083	25 007 952
Consumer debtors - Sewerage	32 377 581	30 374 715
Consumer debtors - Refuse (Filtered)	24 278 867	21 114 198
Consumer debtors - Debtors interest	69 297 657	61 497 477
Other consumer debtors	16 337 401	15 738 929
Debt impairment	(146 269 400)	(143 265 659)
	40 878 661	20 320 455

Trade and other receivables pledged as security

No Trade and other receivable were pledged as security by the municipality.

9. Receivables from non-exchange transactions

Traffic debtor	209 310	547 569
Property rates	15 371 478	12 676 067
	15 580 788	13 223 636

10. VAT receivable

VAT	9 669 051	39 451 418
-----	-----------	------------

11. Consumer debtors disclosure

Gross balances		
Consumer debtors - Electricity	11 249 196	9 785 443
Consumer debtors - Water	25 842 083	25 007 952
Consumer debtors - Sewerage	32 377 581	30 374 715
Consumer debtors - Refuse (Filtered)	24 278 867	21 114 198
Consumer debtors - Interest	69 297 657	61 497 477
Consumer debtors - Other	16 337 401	15 738 929
	179 382 785	163 518 714

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Consumer debtors disclosure (continued)		
Less: Allowance for impairment		
Consumer debtors - Electricity	(8 448 663)	(9 068 631)
Consumer debtors - Water	(19 408 592)	(23 176 048)
Consumer debtors - Sewerage	(24 317 051)	(28 149 680)
Consumer debtors - Refuse	(18 234 545)	(19 567 522)
Consumer debtors - Interest	(52 045 724)	(56 992 610)
Consumer debtors - Other	(12 270 139)	(15 348 554)
	(134 724 714)	(152 303 045)
Net balance		
Consumer debtors - Electricity	2 800 533	716 812
Consumer debtors - Water	6 433 491	1 831 904
Consumer debtors - Sewerage	8 060 530	2 225 035
Consumer debtors - Refuse (Filtered)	6 044 322	1 546 676
Consumer debtors - Interest	17 251 933	4 504 867
Consumer debtors - Other	4 067 262	390 375
	44 658 071	11 215 669
Rates		
Current (0 -30 days)	122	571 756
31 - 60 days	593 322	258 334
61 - 90 days	260 796	192 485
91 - 120 days	152 319	151 203
121 - 365 days	14 364 919	11 502 289
	15 371 478	12 676 067
Electricity		
Current (0 -30 days)	427 677	1 725 406
31 - 60 days	2 135 180	831 495
61 - 90 days	823 802	431 745
91 - 120 days	442 311	347 301
121 - 365 days	7 420 226	6 449 496
	11 249 196	9 785 443
Water		
Current (0 -30 days)	727	504 532
31 - 60 days	410 955	454 849
61 - 90 days	489 713	235 257
91 - 120 days	271 965	211 109
121 - 365 days	24 668 723	23 602 205
	25 842 083	25 007 952
Sewerage		
Current (0 -30 days)	1 812	732 785
31 - 60 days	786 567	653 046
61 - 90 days	708 748	308 091
91 - 120 days	659 874	284 467
121 - 365 days	30 220 580	28 396 326
	32 377 581	30 374 715

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Consumer debtors disclosure (continued)		
Refuse		
Current (0 -30 days)	1 201	496 340
31 - 60 days	537 033	450 341
61 - 90 days	488 786	425 671
91 - 120 days	459 327	409 026
121 - 365 days	22 792 520	19 332 820
	24 278 867	21 114 198
 Ageing as per class of debtors		
Organs of state		
Current (0 -30 days)	228 517	241 414
31 - 60 days	176 312	282 120
61 - 90 days	25 550	152 099
91 - 120 days	(17 615)	6 456
121 - 365 days	78 490	1 927 024
	491 254	2 609 113
 Commercial		
Current (0 -30 days)	483 802	891 241
31 - 60 days	1 219 267	492 328
61 - 90 days	437 339	218 162
91 - 120 days	153 002	128 320
121 - 365 days	4 401 937	3 949 419
	6 695 347	5 679 470
 Households		
Current (0 -30 days)	4 111 673	4 404 177
31 - 60 days	4 988 863	3 632 479
61 - 90 days	2 737 101	3 128 659
91 - 120 days	5 222 801	2 998 420
121 - 365 days	162 908 611	147 960 346
	179 969 049	162 124 081
 Other consumer debtors		
Current (0 -30 days)	(4 331 619)	417 941
31 - 60 days	(390 686)	(129 835)
61 - 90 days	922 211	(358 183)
91 - 120 days	(2 035 328)	(199 188)
121 - 365 days	13 434 035	6 874 203
	7 598 613	6 604 938
 Property rate		
Consumers		
Gross balance	15 371 478	12 676 067
Less: Allowance for impairment	15 371 478	12 676 067
	(11 544 686)	(11 747 509)
	3 826 792	928 558
 12. Cash and cash equivalents		
Cash and cash equivalents consist of:		

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

12. Cash and cash equivalents (continued)

Cash on hand	34 274	98
Bank balances	436 557	1 067 394
FNB Investment accounts	89 644	50 494
Cash float	-	750
	560 475	1 118 736

The management of the municipality is of the opinion that the carrying value of Cash and Cash equivalents recorded at amortised costs in the Annual Financial Statements approximate their fair values.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB Bank - Demand deposit (Human Settlement) - 62033415771	24 945	8 507	9 173	24 639	8 508	9 173
FNB Bank - Demand deposit (Library) - 62299708506	12 343	21 512	20 000	12 272	21 515	20 003
FNB Bank - Demand deposit (MIG) - 62245772050	11 253	20 476	19 067	11 187	20 476	19 067
FNB Bank - Cheque account - 53630018381	705 839	835 101	230 684	1 969 487	1 067 394	335 250
Total	754 380	885 596	278 924	2 017 585	1 117 893	383 493

13. Finance lease obligation

Minimum lease payments due

- within one year	136 514	225 147
- in second to fifth year inclusive	5 850	132 256

less: future finance charges

Present value of minimum lease payments

	142 364	357 403
	(13 538)	(20 073)
	128 826	337 330

Present value of minimum lease payments due

- within one year	136 514	208 505
- in second to fifth year inclusive	5 850	128 825
	142 364	337 330

Non-current liabilities

Current liabilities

	5 710	208 506
	123 112	128 825
	128 822	337 331

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure grant	2 755 678	-
LG SETA Grant	18 908	-
Library	498 146	590 233
Boineelo	28 897	28 897
FMG unspent	1 438 925	-
National electricity infrastructure grant	9 976	9 976
EPWP	13 568	82 197
Unspent grants 16	-	-
	4 764 098	711 303
Non-current liabilities	1 438 925	-
Current liabilities	3 325 173	711 303
	4 764 098	711 303

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National/Provincial Government.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

15. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Provision for Landfill site	4 753 496	(1 683 677)	3 069 819
Leave provision	5 325 573	(2 137 168)	3 188 405
Provision for traffic debtor	229 024	584 576	813 600
	10 308 093	(3 236 269)	7 071 824

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for landfill site	3 957 986	795 510	4 753 496
Leave provision	5 259 011	66 562	5 325 573
Other provisions	202 970	26 054	229 024
	9 419 967	888 126	10 308 093
Non-current liabilities		3 069 819	4 753 496
Current liabilities		4 002 005	5 554 597
		7 071 824	10 308 093

Long Service Award

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2017 by Mr Niel Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

	2017	2016
Balance at the beginning of the year	-	2 629 000
Service cost	-	289 000
Finance cost	-	249 000
Benefits paid	-	(156 000)
Actuarial gain / (loss)	-	(970 000)
	-	2 041 000
Non current liability	2017	2016
Current liability	-	1 895 000
	-	146 000
	-	2 041 000

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

16. Other liability

The Department of Human Settlement indicated to the Municipality in 2014 that the Municipality is indebted to the Department the amount of R15 580 349 for a project of 2006 in Mareezing farm.

The Department of Water and Sanitation indicated to that the Municipality is indebted to the Department for the amount of R55 493.70 for water supply services.

The Department of Driving License Card Account indicated that the Municipality is indebted to the Department for the amount of R54 590.68.

17. Payables from exchange transactions

Trade payables	75 234 245	65 665 062
Other payables	35 524	736 079
Community hall deposits	1 122 108	56 076
Accrued bonuses	1 030 083	1 091 199
Salary deduction control	59 675	93 054
Retentions	2 805 177	2 805 177
Accruals	3 944 618	2 488 377
	84 231 430	72 935 024

18. Income received in advance

Erf deposits	-	869 667
--------------	---	---------

Income received in advance consists of stands deposits for Erfs that have been sold by the municipality

19. VAT payable

Tax refunds payables	9 716 825	22 949 711
----------------------	-----------	------------

20. Consumer deposits

Electricity	584 333	556 803
-------------	---------	---------

Consumer deposits consists of deposits for new electricity connections.

21. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	40 878 661	40 878 661
Other receivables from non-exchange transactions	-	15 580 788	15 580 788
Cash and cash equivalents	560 475	-	560 475
	560 475	56 459 449	57 019 924

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Other financial liabilities	-	15 580 349	-	15 580 349

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand			2017	2016
Financial instruments disclosure (continued)				
Trade and other payables from exchange transactions	84 231 431	-	-	84 231 431
Finance lease	128 822	-	-	128 822
Provisions	-	4 002 005	-	4 002 005
Unspent conditional grants	-	-	3 325 173	3 325 173
	84 360 253	19 582 354	3 325 173	107 267 780

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3 101 453	3 101 453
Other receivables from non-exchange transactions	-	13 223 636	13 223 636
Cash and cash equivalents	1 118 736	-	1 118 736
	1 118 736	16 325 089	17 443 825

Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	60 491 381	-	60 491 381
Bank overdraft	-	15 580 349	15 580 349
Finance lease obligation	337 331	-	337 331
Employee benefit obligation	17 363 001	-	17 363 001
	78 191 713	15 580 349	93 772 062

22. Revenue

Service charges	52 697 879	53 801 209
Rental of facilities and equipment	659 862	208 628
Licences and permits	1 499 490	3 396 384
Other income - (rollup)	9 944 473	1 539 311
Interest received - investment	9 577 300	15 621 283
Property rates	12 053 788	11 304 042
Government grants & subsidies	65 050 749	87 121 358
Fines, Penalties and Forfeits	360 700	672 146
	151 844 241	173 664 361

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	52 697 879	53 801 209
Rental of facilities and equipment	659 862	208 628
Licences and permits	1 499 490	3 396 384
Other income - (rollup)	9 944 473	1 539 311
Interest received - investment	9 577 300	15 621 283
	74 379 004	74 566 815

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

22. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	12 053 788	11 304 042
Transfer revenue		
Government grants & subsidies	65 050 749	87 121 358
Fines, Penalties and Forfeits	360 700	672 146
	77 465 237	99 097 546

23. Property rates

Rates received

Agricultural	2 769 977	2 067 040
Business	4 498 860	4 194 281
Government property	1 777 342	1 602 207
Industrial	2 128	1 999
Residential	3 005 481	3 438 515
	12 053 788	11 304 042

Valuations

24. Service charges

Sale of electricity	31 614 091	30 057 777
Sale of water	5 814 656	7 599 573
Sewerage and sanitation charges	15 269 132	9 308 577
Refuse removal	-	6 835 282
	52 697 879	53 801 209

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

25. Government grants and subsidies

Operating grants

Equitable share	51 070 000	59 070 000
Financial Management Grant	2 010 000	1 875 000
EPWP	1 146 629	1 086 803
Municipal Systems Improvement Grant	-	930 000
LG Seta Grant	409 492	172 618
Library Grant	1 642 087	550 000
Boineelo	(12 953)	47 014
	56 265 255	63 731 435

Capital grants

Municipal Infrastructure Grant	8 785 494	15 306 091
Intergrated National Electricity Grant	-	1 990 024
Library Grant	-	6 093 808
	8 785 494	23 389 923
	65 050 749	87 121 358

Equitable Share

This grant is an unconditional grant and it is partially utilised for the provision of indigent support through basic services.

All registered indigents receive a rebate of 100% on assesment rates and are subsidised for other services. This grant is made up of allocations from National Treasury 2017: R45 070 000; 2016: R43 070 000 and Dr Ruth Segomotsi Mompoti District Municipality 2017: R6 000 000; 2016:R16 000 000 for water and sanitation for indigents.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	3 592 091
Current-year receipts	15 979 000	11 714 000
Conditions met - transferred to revenue	(8 785 494)	(15 306 091)
Withheld by district	(4 437 829)	-
	2 755 677	-

Conditions still to be met - remain liabilities (see note 14)

This grant was used to construct basic municipal infrastructure to provide basic services for the benefit of poor house holds.

Boineelo

Balance unspent at beginning of year	30 554	77 568
Conditions met - transferred to revenue	-	(47 014)
	30 554	30 554

Conditions still to be met - remain liabilities (see note 14).

Boineelo Grant was received by the municipality to assist in the dailly operations of the NGOs.

District Municipal Grants

Conditions still to be met - remain liabilities (see note 14)

District Municipality Grant was used to renovate Wentzel Dam.

LG SETA Grant

Current-year receipts	428 400	172 618
Conditions met - transferred to revenue	(409 492)	(172 618)

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017 2016

25. Government grants and subsidies (continued)

18 908 -

Conditions still to be met - remain liabilities (see note 14)
This grant is for skills development in the municipal area.

Library Grant - Capital

Balance unspent at beginning of year	590 233	3 254 041
Current-year receipts	1 000 000	3 430 000
Conditions met - transferred to revenue	(1 092 087)	(6 093 808)
	498 146	590 233

Conditions still to be met - remain liabilities (see note 14).
The grant was received from the Department of Sports, Arts, Culture and Recreation to assist with the building of the library.

Expanded Public Works Programs

Balance unspent at beginning of year	82 197	-
Current-year receipts	1 078 000	1 169 000
Conditions met - transferred to revenue	(1 146 629)	(1 086 803)
	13 568	82 197

Conditions still to be met - remain liabilities (see note 14).
EPWP is a job creation project in previously disadvantaged areas

Financial Management Grant

Current-year receipts	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

The FMG is paid by National Treasury to medium capacity municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (eg salary costs of the Financial Management Interns).

Municipal Systems Improvement Grant

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems, paid by National Treasury.

Library grant - Operational

Current-year receipts	-	550 000
Conditions met - transferred to revenue	-	(550 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

25. Government grants and subsidies (continued)

The grant was received from the Department of Sports, Arts, Culture and Recreation to assist with the daily operations of the library.

Integrated National Electricity Grant

Balance unspent at beginning of year	9 976	-
Current-year receipts	-	2 000 000
Conditions met - transferred to revenue	-	(1 990 024)
	9 976	9 976

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Energy for the refurbishments of the aged electricity network for Mamusa local municipality.

26. Other revenue

Other income - (rollup)	9 944 473	1 539 311
-------------------------	-----------	-----------

27. Other income

Bid documents	-	143 332
Camping & fishing	5 614	5 869
Cemetery fees	296 958	287 331
Commission auctions	35 127	98 422
Connection fees	103 319	1 855
Electricity fines	-	15 716
Entrance fees	95 125	181 801
Insurance income	523 995	209 052
Plan fees	84 376	27 629
Private works	7 663	42 831
Reconnection fees	85 439	27 709
Sundry income-library	-	5 000
Valuation and clearance certificates	11 831	2 691
Test of meters	-	166
Sundry income	8 695 026	489 907
	9 944 473	1 539 311

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

28. General expenses

Advertising	178 361	129 213
Accommodation	113 440	38 480
Auditors remuneration	2 335 177	2 621 946
Assets expensed	-	5 593
Bank charges	389 473	347 862
Billing charges	113 332	151 109
Chemicals	1 817 481	2 788 733
Consulting and professional fees	4 908 598	3 340 640
Community development and training	12 950	154 918
Conferences and seminars	330 345	21 500
Consumables	1 575 363	299 893
Donations	30 450	170 923
Electricity	7 398 505	3 390 661
Fuel and oil	1 054 410	1 117 518
Insurance	1 716 698	1 715 576
Magazines, books and periodicals	245 281	253 172
Other expenses	967 101	2 065 636
Provision for bad debts movement	6 522 616	26 843 832
Postage and courier	224 582	557 333
Protective clothing	125 742	284 379
Licenses	178 032	183 001
Refreshments and meals	160 925	165 396
Software expenses	1 587 328	1 409 981
Subscriptions and membership fees	3 825	420 108
Telephone and fax	614 479	828 945
Training	265 961	926 206
Travel - local	649 389	2 263 289
Projects	6 000	91 269
Landfill expense	(1 778 747)	709 988
	31 747 097	53 297 100

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017 2016

29. Employee related costs

Basic	28 157 846	29 130 596
Bonus	2 119 690	2 177 628
Medical aid - company contributions	3 947 579	6 193 988
UIF	323 891	325 767
SDL	415 265	424 781
Leave pay provision charge	496 758	484 246
Other allowances	618 043	1 035 020
Pension fund contribution	3 649 932	4 239 384
Travel, motor car, accommodation, subsistence and other allowances	5 018 682	3 460 724
Overtime payments	2 001 945	3 587 694
Long-service awards	109 735	(474 198)
Acting allowances	1 266 453	337 971
Housing benefits and allowances	922 782	917 433
Telephone allowance	204 647	199 901
Group insurance	278 453	272 624
Bargaining council	17 825	17 155
	49 549 526	52 330 714

Remuneration of the Municipal Manager

Annual Remuneration	415 645	687 799
Travel Allowance	145 490	187 058
Housing allowance	87 294	78 980
Telephone allowance	8 000	12 000
Contributions to UIF, Medical and Pension Funds	8 183	10 435
	664 612	976 272

Remuneration of Chief Finance Officer

Annual Remuneration	308 056	593 750
Travel Allowance	102 918	154 377
Housing allowance	60 431	59 913
Telephone allowance	63 000	10 800
Acting allowance	30 781	-
Contributions to UIF, Medical and Pension Funds	15 025	27 734
	580 211	846 574

Remuneration of the Corporate Services Director

Annual Remuneration	460 081	581 169
Travel Allowance	205 836	154 377
Housing allowance	114 012	55 237
Telephone allowance	10 800	10 800
Contributions to UIF, Medical and Pension Funds	53 061	51 633
	843 790	853 216

Remuneration of the Technical Services Director

Annual Remuneration	183 661	603 787
Travel Allowance	68 612	154 377
Housing allowance	41 167	65 181
Contributions to UIF, Medical and Pension Funds	4 328	9 964
Telephone allowance	3 780	-
	301 548	833 309

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
29. Employee related costs (continued)		
Acting Community Services Director		
Annual Remuneration	260 590	171 681
Car Allowance	91 260	48 049
Contributions to UIF, Medical and Pension Funds	105 976	56 841
	457 826	276 571
30. Remuneration of councillors		
Mayor's basic salary	440 695	441 021
Mayor's Travel allowance	192 003	177 929
Mayor's Housing allowance	49 600	45 781
Mayor's Telephone allowance	20 868	22 308
Mayor's contribution to UIF, Medical and Pension fund	87 768	101 575
Councillors basic salary	2 455 887	2 053 472
Councillors Travel allowance	422 136	838 046
Councillors Housing allowance	514 579	224 940
Councillors Telephone allowance	326 932	312 312
Contributions to UIF, Medical and Pension fund	582 779	521 798
	5 093 247	4 739 182
31. Debt impairment		
Bad debts written off	3 185 027	20 264 321
32. Interest earned		
Interest revenue		
Bank	86 642	41 433
Interest charged on trade and other receivables	9 490 658	15 579 850
	9 577 300	15 621 283
	9 577 300	15 621 283
33. Fair value adjustments		
Landfill site fair value adjustment	2 267 000	(1 287 702)
34. Depreciation and amortisation		
Property, plant and equipment	20 653 291	22 481 824
Intangible assets	192 984	1 459 709
	20 846 275	23 941 533
35. Finance costs		
Trade and other payables	8 653 904	3 351 447
Finance leases	-	31 711
Landfill site provision interest charge	95 070	85 522
	8 748 974	3 468 680

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
36. Auditors' remuneration		
Fees	2 335 177	2 621 946
37. Rental of facilities and equipment		
Premises		
Rental of townhalls	70 922	33 063
Rental of townlands	585 476	154 210
Rental of machinery & equipment	3 464	21 355
	659 862	208 628
38. Contracted services		
Security services	3 165 909	2 756 015
39. Bulk purchases		
Electricity	23 811 186	25 145 237
Water	64 017	58 414
	23 875 203	25 203 651
40. Cash generated from operations		
Deficit	(3 036 223)	(27 227 476)
Adjustments for:		
Depreciation and amortisation	20 846 275	23 941 533
Loss on sale of assets and liabilities	(2 059 686)	-
Fair value adjustments	(2 267 000)	1 287 702
Finance costs - Finance leases	8 735 436	31 711
Impairment loss (reversal)	2 487 269	(25 537)
Bad debts	19 945 485	41 049 215
Movements in operating lease assets and accruals	5 265	-
Movements in retirement benefit assets and liabilities	-	2 132 000
Movements in provisions	(3 236 269)	888 126
Other non-cash items	34 212 602	(5 004 630)
Changes in working capital:		
Inventories	(2 150 142)	(355 438)
Receivables from exchange transactions	(89 230 698)	(16 999 597)
Consumer debtors	(3 185 027)	-
Other receivables from non-exchange transactions	338 259	9 358 013
Payables from exchange transactions	11 296 407	32 408 194
VAT	16 549 481	(18 855 822)
Taxes and transfers payable (non exchange)	(869 667)	195 375
Unspent conditional grants and receipts	4 052 795	(6 220 796)
Consumer deposits	27 530	(14 073)
	12 462 092	36 588 500

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

41. Commitments

Authorised capital expenditure

Approved and contracted for

- Infrastructure

13 319 357

7 761 870

Total capital commitments

Already contracted for but not completed

13 319 357

7 761 870

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year

208 916

-

- in second to fifth year inclusive

414 774

-

623 690

-

Operating lease payments represent rentals payable by the municipality for certain of its telephone system. Leases are negotiated for an average term of 5 years and rentals are escalated with 10% yearly. No contingent rent is payable.

42. Contingencies

Contingent Liabilities

There is a litigation between the municipality and R R Gincane (represented by legal wise) where he alleged that he was unfairly dismissed from his position as Municipal Manager, there matter was referred to CCMA and the municipality is awaiting the court date, the estimated cost for the unfair dismissal and legal costs amounts to the value of R200 000 which is made up of 5 months salary and legal costs.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand				2017	2016
43. Related parties					
Official	Name of spouse/ partner or associate	Associate company	Supplier business done with	2017	2016
Coetzee R	S O Maruping	Rona re fithile	Marups Trading Enterprise	1 087 999	3 137 766
Chelechele D T	OP Ramatolo	Relosika Mining Supply and Projects	Uncle paul Distributors	-	24 500
Sepato TM	JK Leroux	supatsela project management	Agang General Dealer	-	5 000
Morolong IK	TG madevu	kemogo Trading Enterprise	Madevu's trading Enterprise	431 979	138 000
Mtshamba SH	H Mokwene	Ipelegeng res Club	Herman Mokwene	-	28 850
Khasu MP	RA Leroux	baruakgomo rhino farm	L Roux Logistics and projects	25 100	14 808
Magan S Sirwe SD	Maine TA	Magan MD	Hansjees Tshwaela Trading and projects	- 293 158	5 000 53 900
Dr Ruth Segomotsi Mompoti District Municipality	N/A		N/A	-	16 000 000
Subtotal	-	-	-	1 838 236	19 407 824
				1 838 236	19 407 824

Management is regarded as a related party and comprises of Councillors. The Mayor, Mayoral committee members, Municipal manager and directors. Refer to note 30, 29, and the General information page. Refer to note 43 for councillors arrears accounts

Transactions with Councillors and Directors

	Opening balance	Billing	Payments received	Outstanding balance
Chubisi E	324	1 391	(2 350)	(635)
Digopo TM	7 721	1 987	(3 445)	6 263
Herbst CP	1 796	22 613	(22 243)	2 166
Keohitlhetse NA	18 331	3 694	(3 600)	18 425
Khuduga DP	468	1 138	(1 607)	(1)
Killian NM	2 155	13 034	(13 440)	1 749
Lee MV	2 619	3 294	(5 617)	296
Lucas MJ	11 775	3 390	(5 373)	9 792
Maine EK	220	2 321	(2 562)	(21)
Moseki L	-	1 088	(1 276)	(188)
Motswana A	(7)	1 110	(1 107)	(4)
Moyake MY	11 160	4 034	(1 395)	13 799
Mpitsang PF	78 681	8 201	(6 356)	80 526
Rapudi MJ	67 072	7 026	(5 347)	68 751
Sediti KS	-	2 541	(2 603)	(62)
Sepato TM	44	2 300	(2 417)	(73)
Silane LR	(2)	2 044	(1 892)	150
Molefe VL	6 361	2 882	(4 443)	4 800
	208 718	84 088	(87 073)	205 733

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

44. Prior period errors

The following prior period error corrections were done for the 2015/16 financial year:

Para 44

Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

Disclosure of prior period errors

Para 51

In applying paragraph 44, an entity shall disclose the following:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) the amount of the correction at the beginning of the earliest prior period presented; and
- (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

For each and every correction. I suggest you use the example below. Para 44

Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

Disclosure of prior period errors

Para 51

In applying paragraph 44, an entity shall disclose the following:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) the amount of the correction at the beginning of the earliest prior period presented; and
- (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

The correction of the error(s) results in adjustments as follows:

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

44. Prior period errors (continued)

Statement of Financial Performance

	As previously reported in 2016	Amount of correction	Restated 2016
The time value of money was not taken into consideration when calculating the provision for bad debts in the 2015/2016 financial year, therefore the provision was overstated by R20 784 893.97. The following adjustment were passed in the current year.	-	-	-
Decrease in Provision for doubtful debts	(164 050 553)	20 784 894	(143 265 659)
Increase in accumulated Surplus	(358 932 415)	(20 784 894)	(379 717 309)
The salary deduction control account (accounts receivable from exchange transactions) was written off in the 2016/2017 year as there was no supporting evidence for this amounts.	-	-	-
Decrease in accumulated surplus	(379 717 309)	2 458 072	(377 259 237)
Salary deduction control account	2 458 072	(2 458 072)	-
The opening accumulated depreciation on the other assets was understated by R 492 779.58 in the prior year	-	-	-
Decrease in accumulated surplus	(377 259 237)	492 780	(376 766 457)
Increase in accumulated depreciation	(12 338 580)	(492 780)	(12 831 360)
Accumulated amortisation on the intangible assets - computer software was overstated in the prior financial periods by R1 236.52	-	-	-
Decrease in accumulated amortisation	(503 978)	3 517	(500 461)
Increase in accumulated surplus	(376 766 457)	(3 517)	(376 769 974)
The debt impairment was understated in the prior year by R9 235 815.50.	-	-	-
Accumulated surplus	(376 769 974)	9 235 816	(367 534 158)
Increase in Provision for doubtful debts	(164 050 553)	(9 235 816)	(173 286 369)
The LG - SETA grant was incorrectly classified as revenue instead of a liability in the prior financial periods	-	-	-
Accumulated surplus	(367 534 158)	446 257	(367 087 901)
LG - SETA grant	-	(446 257)	(446 257)
Decrease in accumulated surplus	(367 087 901)	4 864 849	(362 223 052)
Increase in accumulated depreciation	(161 439 602)	(2 805 201)	(164 244 803)
Decrease in Property plant and equipment	365 143 913	(2 059 648)	363 084 265
Recording of assets there were not recognised in the prior period	-	-	-
Increase in Infrastructure Assets	363 084 265	3 232 374	366 316 639
Increase in accumulated surplus	(362 223 052)	(2 084 201)	(364 307 253)
Increase in accumulated depreciation	(164 244 803)	(1 146 172)	(165 390 975)
Property rates that were estimated in the prior period were not reversed in the new period	-	-	-
Decrease in accumulated surplus	(364 307 253)	556 155	(363 751 098)
Decrease in property rates	-	(822 810)	(822 810)
Increase in income received in advance	-	266 655	266 655
	-	-	-
	(3 266 539 575)	2 001	(3 266 537 574)

45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

45. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

46. Unauthorised expenditure

Unauthorised expenditure - Opening balance	82 241 376	80 670 079
Current year	-	1 571 297
Closing balance - awaiting condonement	82 241 376	82 241 376

This is due to actual expenditure exceeding the approved budget and this is to be presented to the council in the 2016/17 financial year.

47. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	8 008 553	4 657 106
Prior year adjustment 2014/15	152 434	-
Prior year adjustment 2015/16	916 729	-
Current year	7 318 419	3 351 447
Closing balance - awaiting condonement	16 396 135	8 008 553

These are Penalties and interest that arose due to late payment to service providers.

48. Irregular expenditure

Opening balance	88 113 849	65 797 622
Prior year adjustment 2014/15	16 876 064	-
Prior year adjustment 2015/16	34 591 695	-
Add: Irregular Expenditure - current year	6 647 698	22 316 227
Closing balance - awaiting condonement	146 229 306	88 113 849

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Opening balance	420 108	692 730
Current year subscription / fee	500 000	101 392
Amount paid - current year	(920 108)	(374 014)
	-	420 108

Material losses

Opening balance	-	583 839
Current year subscription / fee	-	6 319 715
	-	6 903 554

Audit fees

Opening balance	2 098 437	3 918 758
Current year subscription / fee	73 965	2 419 714
Amount paid - current year	(1 000 000)	(4 240 035)
	1 172 402	2 098 437

PAYE and UIF

Amount paid - current year	6 761 642	5 282 587
----------------------------	-----------	-----------

Pension and Medical Aid Deductions

Amount paid - current year	14 334 265	13 504 532
----------------------------	------------	------------

VAT

VAT receivable	9 669 051	39 451 418
VAT payable	9 716 825	22 949 711
	19 385 876	62 401 129

VAT output payables and VAT input receivables are shown in note 19.

All VAT returns have been submitted by the due date throughout the year.

Mamusa Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Sepato TM	44	-	44
Masilo NG	57	-	57
Herbst CP	1 796	-	1 796
Setshameko KM	69	-	69
Strydom SDJ	3 259	-	3 259
Motlapele LD	79	-	79
Lee MV	956	-	956
	6 260	-	6 260

50. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.